CONCEPTUAL FRAMEWORK FOR PUBLIC ACCOUNTS
Presentation of the consultation on the conceptual framework for public accounts

The Public Sector Accounting Standards Council (CNOCP) is organising a public consultation on the conceptual framework for public accounts.

The conceptual framework for public accounts sets out the principles applicable to all government units that fall under the scope of the Public Sector Accounting Standards Council (CNOCP).

The framework outlines the concepts underlying the accounting standards applicable to government units. These accounting “concepts” should be viewed in the context of the French legal framework, including the Constitution which sets out quality requirements for general government accounts.

The conceptual framework for public accounts is not a standard in itself. It is intended to provide guidelines for the development of a consistent set of accounting standards and, as far as possible, the harmonisation of the standards applied by different government units.

To validate this founding document, the CNOCP is organising a public consultation to gather the comments of any parties affected by accounting standard-setting in France.

The CNOCP invites comments on the proposals in this Exposure Draft, particularly on the questions set out below.

The consultation is available in French and English on the CNOCP’s website: www.economie.gouv.fr/cnocp.

Respondents are requested to submit their comments by 30 April 2015 to the General Secretary of the Council, Mme Marie-Pierre CALMEL, at the following postal address: Conseil de normalisation des comptes publics (CNOCP) - 5, place des vins de France 75012 Paris – or by e-mail to: marie-pierre.calmel@finances.gouv.fr.
Established by the Supplementary Budget Act of 30 December 2008, the Public Sector Accounting Standards Council (CNOCP) is an advisory body under the authority of the Minister for the Budget.

It is in charge of the development, amendment and interpretation of accounting standards applicable to entities that fall under its scope. It is also responsible for issuing preliminary opinions on all draft legislation and regulations containing accounting requirements applicable to these entities. Lastly, the Council takes part on its own behalf in international debate on public sector accounting standard-setting and responds to the consultations of institutions and international organisations. It publishes all of its opinions and preliminary opinions, as well as its responses to public consultations.

The Council is led by a Chair appointed by the Minister for the Budget and its functions are exercised by a Board made up of eighteen members, of which nine are ex officio members and the other nine are recognised experts. The Chair and the Board are assisted by standing committees and an advisory steering committee.

The Council possesses full time technical staff managed by a general secretary under the authority of the Chair.
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GLOSSARY
The conceptual framework for public accounts should be viewed in the context of the French legal framework, including the Constitution which imposes a specific quality requirement for the accounts of government units. Therefore this consultation is intended for any parties affected by public sector accounting standard-setting in France.

**Question 1**  
Do you agree with the introduction of a conceptual framework for public accounts?

**Question 2**  
The draft conceptual framework for public accounts justifies the purpose for its existence as the description of the specific characteristics underlying public action and their accounting implications. Can you think of any other elements that might justify its existence?

**Question 3**  
In your opinion, should the conceptual framework for public accounts have the authoritative status of a standard (which is not proposed in the current draft)? If so, why?

**Question 4**  
Should the conceptual framework determine the entities within its scope?  
> If not, why not?  
> If so, do you consider the description given in Chapter 2 appropriate?

**Question 5**  
In Chapter 3, the draft conceptual framework for public accounts defines the common source of the key characteristics underlying public action. Do you agree with this analysis? Which changes or additions would you propose?

**Question 6**  
Chapter 4 on the users of accounting information considers that everybody may be potentially interested by public accounts, but clearly identifies citizens and their representatives as primary users of accounting information. Do you agree with this approach specific to government units?

**Question 7**  
Chapter 5 presents the qualitative characteristics of accounting information and the constraints to be considered. Do you agree with the proposed definitions?
Question 8  Chapter 6 deals with the definition of accounting elements and recognition criteria. Do you agree with these proposals? If not, why not? Are there other items you would like to see mentioned in this chapter?

Question 9  Chapter 7 lists different measurement bases and selects entry value, after deducting depreciation and impairment where appropriate, as the preferred basis for measuring assets at the reporting date. Do you agree with this list? Should a preferred basis be proposed? If not, why not?

Question 10  Chapter 8 on the presentation of the financial statements introduces a specific section in the notes disclosing certain sovereign powers and commitments. Do you agree with this presentation of the financial statements and the rationale provided for it? If so, are the objectives of this section sufficiently explicit or is further clarification of the conceptual framework required?

Question 11  Chapter 9 deals with the possible consolidation or combination of the accounts of certain reporting entities. Should this subject be dealt with in the conceptual framework? Do you agree with the guidelines and explanations provided? Which changes would you propose?

Question 12  In your view, are there other issues that should be dealt with in conceptual framework for public accounts? If so, which issues?

Terms followed by an asterisk (*) are defined in the glossary annexed to the conceptual framework. The commentary inserted in the text of the conceptual framework is highlighted in blue.
USEFULNESS OF A CONCEPTUAL FRAMEWORK FOR PUBLIC ACCOUNTS

Accrual accounting (*), originally developed for presenting the financial position of an entity, is based on the recognition of rights and obligations, such that the effects of transactions (*) and other events are recognised when they occur, and not on the date of any related cash payment or receipt. Consequently, transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate.

Different terms with the meaning of accrual accounting are used in French, including “comptabilité d’exercice”, “comptabilité générale” (*) or “comptabilité en droits constatés”. In the public sector “comptabilité patrimoniale” is sometimes used as well. For business entities, the term “comptabilité d’engagement” (commitment accounting) is also used. The latter term is not used in public accounting because it might be confused with budgetary commitments.

Transactions and events recognised in the accounts do not necessarily give rise to cash outflows or inflows, even if they usually do.

For the entities concerned by this conceptual framework, the accounting period is the financial year (*).

Accrual accounting has been progressively introduced into the public sector by numerous laws and regulations\(^1\). The current legal position is as follows:

> The Constitution imposes a quality obligation for the accounts of government units, as the second paragraph of Article 47-2\(^2\) requires “The accounts of government units shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said government units”.

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\(^1\) The reference to accrual accounting in the public sector goes back a long way. Without going right back to its origins, we note that the general public accounting regulation of 29 December 1962 required all the organisations to which it applied to use an accounting classification based on the French Chart of Accounts (PCG) or in some cases to actually apply the latter. Each general government sector therefore acquired an experience of accrual accounting. This conceptual framework sets out to build on the progress made to date.


The accounts of government units shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said government units.”
Article 27 of the Constitutional Bylaw on Budget Acts n°2001-692 of 1 August 2001 (“LOLF”) provides¹ that Central Government keeps “accrual accounts for all of its transactions”, according to the requirements of Article 30⁴.

Article L.114-5 of the Social Security Code provides that “the mandatory basic social security schemes and organisations that provide funding for them apply a single chart of accounts based on accrual principles”⁵.

Different codes or uncoded laws that introduce accrual accounting obligations for specific entities.

Order n°2012-1246 of 7 November 2012 relating to public budgetary and accounting management requires, in the same way as the previously mentioned Constitutional Bylaw on Budget Acts n°2001-692 of 1 August 2001, that the accounting rules ⁶ of public entities within its scope only diverge from those applicable to business entities where this is made necessary by the specific characteristics of their activity.

Accrual accounting principles therefore apply to entities within the scope of this conceptual framework, when they are subject to regulations requiring them to produce annual accounts on an accruals basis.

The accounting rules derive from accounting standards. The latter are based on concepts, which enable the identification of transactions and events recognised in accrual accounting and the ways in which the latter are represented in the accounts.

The conceptual framework presents and clarifies these concepts which are:

> either generally accepted accounting concepts derived from business accounting if the transactions are similar to those of business, in which case the accounting standards based on these concepts will be convergent with those of business entities;

³ Article 27 of the “LOLF”: “The State keeps cash-basis accounts for its budget revenue and expenditure and accrual-based accounts for all its transactions. It also implements an accounting system designed to analyse the costs of the different actions taken under the programmes. The State’s accounts must be lawful, faithful and give a true and fair view of its net assets and financial situation.”

⁴ Article 30 of the “LOLF”: “The government general accounting system is based on the accrual principle. Transactions are entered for the fiscal year to which they apply, regardless of their date of payment or collection. The rules applicable to the government accrual-based accounting only differ from those applicable to companies in terms of the specific nature of government action. (…).

⁵ Accrual accounting was introduced in 1996 for these organisations.

⁶ This Order stipulates in Article 56 that accounting rules are defined in standards developed in accordance with Article 136 of Law n°2011-1275 of 28 December 2001, amended Budget Act for 2002, relating to the creation of the Public Sector Accounting Standards Council.
or concepts required by the specific nature of the activity of the entities within the scope of the conceptual framework, and identified in the latter. In this case, accounting standards will be developed specifically to address the transactions characteristic of public policy.

[7] The formalisation of the concepts on which accounting standards are based paves the way to:

> the internal convergence and consistency of the set of standards;

> the understandability of the standards and assists with their interpretation;

> the understandability and interpretation of information presented in the accounts (referred to hereafter as accounting information).

[8] Accounting information is information provided in the accounts. The conceptual framework uses this expression rather than “financial reporting” to avoid any possible misunderstanding as to the scope of accrual accounting: it does not include all financial reporting (the latter term may be extended to cover in addition to the accounts in the strict sense, financial analysis, financial projections, sustainability analysis, etc. – see below).

[9] By defining the scope of accrual accounting and by clarifying the information excluded from it, the conceptual framework determines the contribution and limits of accounting information, making it easier to understand and more precise.
CHAPTER 1
ROLE AND AUTHORITY
OF THE CONCEPTUAL FRAMEWORK

[10] The conceptual framework for public sector accounts relates exclusively to accounting information produced on an accruals basis and presented in the form of “accounts” or “financial statements.” The latter terms are considered to be identical in this context.

[11] The conceptual framework does not apply to other documents including accounting information, such as budget reports, management reports, reports on the sustainability of public policy or public sector performance indicators, even if these documents are based entirely or partly on accrual accounting information. It does not apply to budget accounting, management and cost accounting or to the national accounts.

[12] The conceptual framework for public sector accounts establishes a coherent set of concepts underlying the accounting standards applicable to the financial statements of the relevant entities. These concepts, which take account of the key characteristics of public policy that have an accounting effect, relate to:

> transactions, events and circumstances to be reflected in the financial statements;
> recognition criteria;
> the choice of measurement basis;
> guidance on the presentation of the financial statements.

[13] This set of concepts is defined by reference to the different possible uses of the accounts envisaged by the conceptual framework. The latter also defines precisely the status and limits of accrual accounting information.

[14] The conceptual framework is not a standard and does not define accounting rules. It has the purpose of assisting:

> the Public Sector Accounting Standards Council (CNOCP), a standard setter with the responsibility for proposing or giving an opinion prior to the adoption of accounting standards applicable to entities within its area of competence;
> the authorities in charge of defining accounting rules;
> the preparers of the accounts of the relevant entities in applying standards;
> the auditors in forming an opinion on the accounts of these entities and to determine whether they comply with the standards, without the framework overriding the standards;
> the users of accounts.
The conceptual framework assists the standard setter in ensuring the consistency of the standards and the financial statements based on them. It enhances the understandability of standards for preparers, auditors and users. It may also facilitate the interpretation of standards, for example in dealing with specific circumstances or transactions not covered by existing standards.

In the absence of a standard dealing with a specific transaction, preparers and, where appropriate, auditors may refer to the conceptual framework in order to determine the appropriate accounting policy. The framework may compensate for the potential absence of guidance in a standard, but the standard setter must ensure that this situation is exceptional and of a temporary nature.
CHAPTER 2
ENTITIES WITHIN THE SCOPE
OF THE CONCEPTUAL FRAMEWORK
FOR PUBLIC ACCOUNTS

[17] Entities within the scope of this conceptual framework combine the following characteristics:

[18] 1. Entities established by a political process or those set up by the before-mentioned entities and entrusted with a part of their prerogatives and missions.

[19] 2. Their main function is the implementation of public policy essentially in two ways:
   a. The provision of goods and services, to the community or individually, without charge or for a price that is not economically significant (*);
   b. The payment of cash benefits (monetary transfers).

   The entities may in addition operate in market conditions.

[20] 3. In order to conduct their mission, these entities are mainly financed directly or indirectly by public funds (*) allocated by a political process. These funds come mainly from direct or indirect income taxes or national wealth.

   These funds give rise to rights and obligations for the entity.

[21] As the conceptual framework is principles based, its scope cannot be defined by reference to a pre-determined list of entities.

   Nevertheless, the definition of the entities within the scope of the conceptual framework for public accounts is a means of identifying the key characteristics of their activities that might form a conceptual basis for specific accounting standards modifying, adopting or supplementing business accounting standards.

   The scope corresponds to the area of competence of the Opinions of the Public Sector Accounting Standards Council (CNOCP). This scope should in theory cover that of government units' since, parliamentary debate leading up to the creation of the CNOCP, shows the legislator intended the latter’s area of competence to cover the general government sector. However, the law establishing the CNOCP contains no reference to government units, so that certain entities may or may not be within the scope of government units and/or the CNOCP’s area of competence, according to the specific laws that apply to them.

7 Concept defined by the EU Regulation of the European Parliament and Council of 21 May 2013 relating to the European system of national and regional accounts in the European Union.
The main function of government units is the implementation of public policy consisting of the provision or maintenance of public goods (*). However, certain entities may either operate in normal market conditions, or with the purpose of correcting a structural market imbalance, due to the chronic lack of supply or demand.

[22] Hereafter, for the sake of clarity, entities within the scope of this conceptual framework are referred to as government units (*).

[23] It is possible to identify indicators that provide evidence of whether an entity is within the scope of this conceptual framework and, more especially, of the standards the consistency of which depends on the framework. The use of such indicators is intended to assist users by creating a presumption that the framework applies and it in no way represents an alternative definition.

Public or private entities with a non-market activity funded principally by taxes and social contributions are presumed to be within the scope. In certain cases, the recipients of these benefits may make a direct but marginal contribution to their funding.
A. IDENTIFICATION OF THE KEY CHARACTERISTICS OF THE ACTION OF GOVERNMENT UNITS

The action of government units may have specific characteristics, which are more or less accentuated, distinguishing it from that of business entities. As an indication, the specific characteristics most frequently encountered in government units, are set out below. It is neither a comprehensive nor a cumulative list and the characteristics will not be found in all entities. Accounting standards may diverge from business sector rules to accommodate a specific characteristic of public policy, even if the characteristic does not feature on this list.

1. Key characteristics related to the nature of government units
   a. Mandatory and unilateral character of certain public decisions
   [25] Certain decisions taken or implemented by government units are binding for third parties, in contrast to the contractual model used by business entities which is based on a voluntary agreement between two or more parties. In the exercise of the powers of public authority, government units take unilateral action which may be outside the scope of normal legal requirements.

   b. Longevity of the general government sector
   [26] The functions and missions of government units are generally of a long term nature and take priority over the organisation in charge of their implementation. The future of these missions and the associated rights and obligations is not tied to that of the entity in charge of their implementation. Even if a government unit disappears due to a reconfiguration or reorganisation, its missions continue, as do its rights and obligations, and are generally taken over by another structure, after a possible redefinition.

   c. Importance of the budget
   [27] The budget (*) is of particular importance for many government units in that it is first and foremost an official forecast and formal authorisation, often of a restricted nature. However, an important part of public policy, in particular Social Security, is not determined by reference to a restricted budget but by reference to objectives.

   [28] Generally approved by Parliament or a deliberative body, the budget is one of the sources of information that provides the clearest overview of the entity.
The conceptual framework does not address the budget, which has its own rules, even if its preparation and implementation rely on accrual accounting data.

Nevertheless, because of the importance of budget information, the conceptual framework takes into account the convergent and divergent aspects of accrual and budget accounting (see Chapter 4C.2).

2. Specific functions of government units

In order to implement public policy, in particular in respect of economic and social regulation, government units:

- Exercise authorisation, control and penalisation functions; or
- Provide goods and services in a non-market environment, through non-exchange transactions; or
- Make transfers (*) in cash, which may take the form of levies on income.

Public action involves essentially the provision of benefits for which the recipient provides no or nominal consideration directly in return to the government unit. Such benefits may take the form of services, on an individual or collective basis (education, defence, security…) or of transfers (sundry allowances and grants).

Public action is often based on non-exchange transactions between the recipient and the provider of the benefit. There is consequently a dissociation of the payer, the provider and the recipient of a benefit.

Some of these actions are designed to put the solidarity principle into effect, most often through the sharing out mechanism (*).

The Preamble to the Constitution of 27 October 1946 – to which the Preamble to the Constitution of 4 October 1958 refers – lays down the principles under which the Nation offers to its members certain collective guarantees, often referred to as “constitutional rights”. These principles guide the action of public authorities, within the limits set out by the Constitutional Council.

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*Preamble to the Constitution of 27 October 1946: “10. The Nation shall provide the individual and the family with the conditions necessary to their development.”

“11. It shall guarantee to all, notably to children, mothers and elderly workers, protection of their health, material security, rest and leisure. All people who, by virtue of their age, physical or mental condition, or economic situation, are incapable of working, shall have the right to receive suitable means of existence from society…”.
The conditions for their implementations are defined through legislation. Thus, the first paragraph of Article 111-1 of the Social Security Code provides that: “The organisation of social security is based on the principle of national solidarity”. National solidarity takes different forms, including solidarity between generations which might be compared to a will made on trust or “fidéicommis” (*).

The specific functions of government units, which are variable according to each entity, have several effects, including:

- As in not-for-profit entities, the lack of systematic profitability objectives;
- The lack of direct relationship between the compulsory levies and the services rendered;
- The lack of allocation of income to expenditure, resulting in a lack of matching of revenue and expense;
- The existence of so-called specific systems of “intervention”.

### 3. Specific characteristics of resources allocated to government units and of certain of their obligations

Public policies implemented by government units are funded by compulsory levies, which apply potentially to all natural and legal persons.

It would be possible to carry out an analysis of compulsory levies differentiating taxation and social contributions and the nature of the “rights” to which they give rise for the payers. Whilst the payment of certain social contributions creates entitlement to future benefits, the latter may be subject to conditions, such as the fact that the contributor or its designated beneficiary will be in a position to claim its entitlement.

The specific characteristics of resources allocated to government units result mainly from:

- The compulsory nature of the levies which represent the majority of these resources;
- The use of public property, which is subject to specific restrictions such as its inalienability;
- Where applicable, regulation through restricted budgets (see above).

The specific nature of certain obligations is related to the fact they can be unilaterally revoked, subject to the limits fixed by general legal principles, constitutional guarantees and ratified international commitments.
B. SOVEREIGNTY, MAIN ROOT OF THE SPECIFICITIES OF GOVERNMENT UNITS’ ACTION

The identification of the key characteristics of the action of government units leads us to examine their roots.

Public action is conducted by government units. Their principal function is to implement public policies, which are an expression of the will of the people, holder of the sovereignty exercised under the terms of the Constitution of the Republic. However, the latter may, in theory at any time, create, eliminate or change the content of public policies as well as the organisation responsible for their implementation. It may therefore create or eliminate the rights and obligations attributed to government units in order to conduct these public policies or modify their content, subject to the rights of third parties.

Article 3 of the Constitution stipulates: “National sovereignty shall belong to the people, who shall exercise it through their representatives and by means of referendum. No section of the people nor any individual may arrogate to itself, or to himself, the exercise thereof”.

According to doctrine, sovereignty is considered to be an absolute power, undivided and perpetual, or the “competence of competence”.

The latter expression shows that the holder of sovereignty (the people) exercises it by attributing competence and the corresponding resources to different entities.

The identification of sovereignty as the common source of the specific characteristics of the action of government units does not mean that it is a direct attribute of the latter. Generally, public service is the common feature used to characterise entities responsible for implementing policies decided by the holder of sovereignty.

The conceptual framework is an accounting document and as such it does not set out to define the concept of sovereignty to which it refers. It sets out to define the accounting consequences of sovereignty and in particular its capacity to create or modify the rights and obligations of government units on a unilateral basis. The framework recognises that certain specific transactions in the field of public action are related to rights and obligations that may be modified on a unilateral basis by sovereign power and concludes that these transactions are likely to require specific accounting treatment.

9 Meaning the freedom to act at any time.

10 Article 73 of the Constitution authorises departments and overseas territories to set the rules applicable on their territory, subject to the limits defined in the Constitution and where applicable specified in and complemented by a Constitutional Bylaw.

11 The conceptual framework does not carry out a legal analysis of the concept of sovereignty. It uses existing legal concepts and those of political philosophy to determine its own argumentation for accounting purposes.
The conceptual framework therefore identifies a power, arising from sovereignty, that oversees government units and which, by convention, it calls the sovereign power. This term is used in the rest of the document to describe the holder of sovereignty.

The sovereign power has the capacity by its decision-making to adapt public policy to keep it in line with the financial resources it decides to allocate, in application of the principles of constitutional jurisprudence. This may apply to the “constitutional rights” to social protection.

It is appropriate to establish the accounting consequences of the existence of this power above government units.

### C. DISTINCTION BETWEEN THE OBJECTIVES OF THE SOVEREIGN POWER AND THE ACTION OF GOVERNMENT UNITS

The identification of sovereignty as a source of particular prerogatives and specific characteristics of the action of government units leads us to distinguish two tiers:

- That of the **sovereign power**, the source of rights and public service to the community, the origin of public policy vested with different forms of political power (especially legislative). The sovereign power has powers and commitments (*) with respect to rights of the community that, after attribution to government units, at the end of the process and in the conditions set out below, will have the nature of rights and obligations for government units;

- That of **government units** responsible, in varying degrees, for the implementation of public policies that translate the will of the sovereign power into acts, certain of which are of a specific nature. These entities are managers of the competence and resources attributed to them by the sovereign power. The entity “Central Government” has a special status because it possesses the principal competence and resources.

Although all the action of government units is, by conception, linked to sovereignty because the sovereign power (directly or indirectly) creates these entities, defines their functions and allocates resources to them, the framework is only concerned by the concept of sovereignty to the extent that, firstly it affects the specific nature of the action of government units, and secondly because sovereign power may have an influence on the accounting conventions used to represent the related specific transactions.

The entity referred to in this context for accounting purposes is not the “State” in the political sense used in international law (a territory, a people, a political regime and the power to act with other States), but the entity “Central Government” whose resources are described in the Budget Act.
These two tiers illustrate the distinction between the **powers and commitments** of the sovereign power on one hand, and the **rights and obligations** it attributes to the managing entities, namely the government units, on the other hand. For the latter, the reference to private sector accounting standards leads to consider:

- **Rights, obligations or transactions similar or equivalent to those of business entities**, treated in accordance with standards derived or adapted from the business sector. Transactions similar or equivalent to those of business entities consist of:
  - contractual transactions identical or equivalent to those of business entities, even if they have certain special features;
  - the consequences of events outside the control of the entity, and of the sovereign power, which the government units have nevertheless to deal with, taking into consideration general legal principles;

- **Rights, obligations and transactions considered specific to public action**, arising from the powers and commitments of the sovereign power and whose characteristics consequently require specific accounting treatment.

### D. PRINCIPAL ACCOUNTING CONSEQUENCES OF IDENTIFYING SOVEREIGNTY AS A ROOT OF PUBLIC ACTION’S SPECIFICITIES

#### 1. Consequence on the nature of reporting entities

It is not the purpose of this conceptual framework to describe the accounting principles applicable to the sovereign power. Indeed, the latter, which appears in different political processes, is not made up of identifiable entities and is not therefore a reporting entity (See Chapter 8 below); the sovereign power is not literally speaking accountable and therefore has no accounts. From the point of view of the conceptual framework, the notion of the accounts of the sovereign power is therefore not relevant, thus limiting the scope of the accounts of government units.

#### 2. Definition of a going concern principle suitable for government units

The perpetual nature of sovereignty (exclusive of the fact that the Nation might cease to exist through conquest, merger or split) contrasts with the fragility of business entities that are constantly exposed to financial markets. Whilst government units may sometimes be dissolved, the rights and obligations entrusted in them by the sovereign power are not cancelled as a result, unlike business entities for which the amounts due on liquidation are limited to existing net

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12 The sovereign power does not have an obligation to discharge its accountability by presenting financial statements. On the other hand, the sovereign power may be accountable in the everyday political sense of the word.
assets. In the case of government units, the future of the entity is not tied to that of its rights and obligations, as the latter depend ultimately on the decisions of the sovereign power.

This is why the going concern principle, which applies equally to the accounts of business entities and government units, does not have the same effects for both of them.

3. Definition of the level of maturity required for rights and obligations specific to public action to be recognised in the accounts

The power to establish the legal framework (laws and regulations) mandatory for all entities (government units, business entities, associations and others), within which they exist and operate is a regulatory power. This power may impose conditions and sanctions on entities’ transactions or prohibit them.

As part of its prerogatives as a public authority, the sovereign power defines, exercises or attributes this regulatory power to specific government units.

The conceptual framework considers that regulatory powers, even if they are effectively exercised by government units which are reporting entities, are the exclusive right of the sovereign power and therefore outside the scope of the accounts.

However, the conceptual framework has to determine the concepts underlying the appropriate accounting treatment for transactions, rights and obligations specific to public policy implemented by government units.

The origin (legal, regulatory, or contractual) of the rights and obligations of a business entity does not affect their accounting treatment.

If the existence of an obligation depends on future conditions which the business entity does not control, the obligation is not recognised; it is a contingent liability.

All the more so, if the government unit were able to control these conditions even indirectly, this would not lead to the conclusion that the obligations are liabilities.

Where the government unit is responsible for missions for which the sovereign power has attributed it rights and obligations specific to public action, the timing of their recognition in the financial statements of the relevant entity needs to be determined. The purpose of the conceptual framework for public sector accounts is to define the timing in the context of the specific characteristics of public action and of sovereign power.

13 In this case, by the will of the sovereign power which created or had the government unit created.
Recognition is not based on the way in which public action is implemented. Indeed, the nature of the rights and obligations is not determined by the manner in which they are put into effect (see the definition of the elements of financial statements in Chapter 6).

Even if public policies may be implemented by the provision of benefits (to the community or individually), in kind or in cash, this framework considers that the form (in kind or in cash) in which the benefits are provided is not an appropriate criterion for determining the relevant accounting conventions.

The determination of the concepts underlying the accounting treatment of transactions, rights and obligations specific to public action must ensure the internal consistency of the financial statements. To this end, the conceptual framework considers that the timing of the recognition of rights and obligations specific to public action in the financial statements coincides with when they become similar or equivalent to those of a business entity.

4. Identification of a new class of elements and need for disclosures specific to government units in the notes

When rights and obligations specific to public action are attributed to government units, they are not held directly by these entities and are not therefore under their responsibility. Their scope and their status may vary in function of decisions outside the control of these entities; these rights and obligations are not therefore initially of the same nature as contractual rights and obligations.

This characteristic pleads in favour of adapting existing definition criteria for elements or creating specific classes of element on the one hand, and supplementing the notes to include explanatory commentary on the other hand, in order to represent the specific characteristics of public action in the financial statements.
Accounting information is not an end in itself. Consequently, the concept of user (or reader) of accounting information is fundamental: it facilitates the definition of the nature and objectives of financial statements likely to meet their needs.

First of all, it is necessary to identify the user groups for accounting information and determine whether certain groups of user can be considered as “primary or principal users”.

Next the common information needs of the users should be defined.

Lastly, the conceptual framework determines to what extent accrual-based financial statements meet the identified needs of users. In the process, the conceptual framework defines the objectives of financial statements, clarifies the status and limits of the information included in the financial statements, and in other words defines what is not included.

A. USERS OF PUBLIC ACCOUNTS

In addition to meeting the needs of managers and their supervisory authorities, accounting information satisfies the requirements of external users who are not necessarily in a position to obtain directly the information they need.

In addition to internal users, and citizens and their representatives, who are clearly primary users of accounting information, information users are:

- Service recipients;
- Resource providers (taxpayers or lenders);
- Social partners;
- Supervisory bodies;
- Parties contracting with public entities;
- Foreign and international public entities that deal with French government units.

This conceptual framework considers that information on public accounts is potentially interesting for everybody, even for those who have no particular intention or capacity to take any action with respect to government units.
Based on the experience of the private sector, the objective of business accounting is principally to measure financial performance and the creation of wealth for distribution to shareholders. The primary users identified by international standards of the International Accounting Standards Board (IASB) are present and potential capital providers (*), and, generally, those that deal with the entity without having direct access to its accounts (customers, suppliers...). The need for standards is deemed to arise from external communication and it is considered that if the needs of outside users are satisfied, those of internal users should be as well, given that the latter have direct access to all detailed internal information available relating to the entity.

In business accounting, there are therefore two levels of users: the primary external users need information on the creditworthiness of the entity whilst capital providers need to estimate the return on investment and there are the other users who have a functional relationship with the entity.

The primary users of the financial statements of government units are currently:
- The authorities which approve the accounts or use them to take decisions in respect of the entity,
- The structures that provide capital on a voluntary basis to the government unit: the financial statements must provide them with information on the nature of the risk they consider taking.

The conceptual framework identifies the citizen and its representatives as primary users of the accounts, in other words the sovereign power itself. But the framework does not allocate any particular status to the other identified users (service recipients, taxpayers, creditors...), on the basis that they all have an equal interest in public accounts. It would only be necessary to introduce a user hierarchy if the latter had accounting consequences which are not identified in the conceptual framework. It does, however, assume the user of the accounts possesses basic accounting knowledge.

### B. GENERAL INFORMATION NEEDS OF USERS

The users of financial reporting have the following information needs:

> Information about the financial position and performance of a government unit;

> A report on the financial performance for the current period compared to budget or, where no budget exists, a comparison to the financial forecast adopted by the relevant authorities;

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14 2014, publication date of this document.

15 Included in Chapter 2 of the conceptual framework of the IPSAS Board, for example.

16 As stated above, this is a broader concept than accounting information.
Sustainability reports, financial projections, macro-economic data or information on the proper use of public funds.

The involuntary nature of certain sources of public funding (taxation, mandatory social contributions) makes it necessary to produce a report on their use by government units.

Several information systems may wholly or partially meet these information needs. They include accrual accounts, budget accounts (*), national accounts (*), management and cost accounts (and forecasting models based on the management accounts) as well as budgetary and financial sustainability models. Each user may adapt the use of a source of accounting information to its own requirements and combine this information with that obtained from other sources.

C. OBJECTIVES AND LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements provide the information which users need.

1. Presentation of the financial position of the government unit

The conceptual framework, which applies only to accounts prepared on an accrual basis, defines how accounting information meets certain of the information needs of the users identified above. Thus the purpose of financial statements prepared on an accrual basis is to present a true and fair view of the financial position and the performance of the entity whose transactions, rights and obligations they portray. In this way, the financial statements meet a specific information need of users (the first information need set out in B above).

The financial statements account for a situation arising from past events, over which the government unit has no further influence and for which it must assume the consequences.

It is not the purpose of the financial statements to present prospective financial information although they may be useful both for its preparation and interpretation.

The total rights and obligations of a person are sometimes referred to as the person’s estate. 

In the case of an entity, the relationship between its assets, liabilities and equity as reported in its balance sheet is known as its financial position.

In order to provide a true and fair view of the financial position it is necessary to define the extent of these rights and obligations, and to identify, recognise and measure them in accordance with the relevant accounting standards.
Because the accounts are fundamentally based on past events, they are not intended to provide all the information a citizen may require, such as on the performance of public services or the medium term sustainability of pension schemes or public finance, because other specialised sources may provide detailed information or financial forecasts. The accounts provide a clearly defined view of the financial position and performance of the government unit on a regular basis.

The financial statements contribute not only to the transparency of public accounts but also to the improvement of public management by providing a complete presentation of financial position (particularly of receivables and liabilities).

2. Where applicable, reconcile with budget, forecasts or other accounting sources

Financial information other than that provided in the accrual accounts may meet certain needs of users.

Where applicable, a reconciliation of the accrual accounts with other sources of accounting information, in particular a reconciliation of the accounting surplus/deficit with budget may provide relevant information to users. Similarly, in the case of certain entities, it may be appropriate to provide a comparison with Government Finance Statistics.

3. Need for careful interpretation of the financial statements

In order for users to be well-informed, they need to be aware of the limitations relating to the type of information provided by and/or excluded from the financial statements.

The interpretation of the financial statements requires care, particularly when assessing creditworthiness. The limitations of financial statements in no way diminish their usefulness.

An understanding of the objectives of accrual accounting enables the user to identify:
- The cash flows and surplus/deficit for the period;
- The boundary between the balance sheet and the notes to the financial statements;
- The distinction between the financial statements and other reports which may be produced by the government unit, such as management, sustainability, and performance reports etc.

An examination of the changes in certain elements in the financial statements may provide useful information. For this reason, the financial statements present information for at least two accounting periods.
CHAPTER 5
QUALITATIVE CHARACTERISTICS
OF FINANCIAL STATEMENTS

[84] The financial statements of government units are prepared on a going concern basis.\(^ {17} \)

[85] As stated above, the conceptual framework is based on the assumption of the continued existence of the rights and obligations of a government unit, irrespective of what becomes of the latter. The insolvency procedures of the Commercial Code apply to business entities. There is no equivalent in the public sector. It is therefore considered that where a government unit is restructured or closed down, its rights and obligations are taken over with some possible modifications by the entity identified in the deed winding up its activity.

[86] The financial statements are prepared in accordance with the following general principles and qualitative characteristics, without any particular hierarchy.

[87] Accounting information is based on the principles set out Article 47-2, Paragraph 2 of the Constitution: “The accounts of government units shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said government units”.

The conceptual framework proposes a definition of the principles laid down by the Constitution. The latter have an effect on the “qualitative characteristics” of financial statements defined as the attributes that make accounting information useful.

These qualitative characteristics were previously referred to as “accounting principles”.

A. GENERAL PRINCIPLES

[88] Faithful representation

Faithful representation is achieved where the preparers of the accounts apply faithfully the accounting rules and procedures to the depiction of transactions and events according to their best knowledge of the true nature and substance of the latter.

\(^ {17} \) As explained in the chapter on the specific characteristics of the action of government units.
Compliance

Compliance is conformity with the accounting rules and standards in force.

True and fair view

Information gives a true and fair view of operations, transactions and other events when it provides the user of the accounts with the best possible representation of the latter.

B. QUALITATIVE CHARACTERISTICS OF THE FINANCIAL STATEMENTS

Neutrality

For accounting information to be neutral, its presentation must be free from bias.

Relevance

Information is relevant when it is useful for the interpretation of the accounts, or for the users’ decision-making, by helping them evaluate past, present or future events or correct or confirm their past evaluations. The timeliness of information, that is making it available at the appropriate time, enhances its relevance.

Reliability

Reliable information is free from material error, bias and excessive uncertainty so that users can rely on it provide a true and fair view of the entity.

Completeness

The information in the financial statements must be complete, to the extent that an omission can cause the information to be false or misleading.

Understandability

The information in the financial statements must be understandable by users. For this purpose, users are assumed to have a reasonable knowledge of the public sector and accounting. However, information about complex matters should not be excluded from the financial statements where such information is relevant to users’ needs.

Prudence

Prudence refers to the exercise of caution in making estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence must not adversely affect the neutrality of the information.
Comparability

Accounting information must be comparable from one period to another to identify trends relating to the situation of the entity and enable comparisons to be made with other entities. Comparability implies the consistent use of accounting policies, measurement bases and presentation by the entity from one period to another.

Substance over form

Transactions and other events must be accounted for and presented in accordance with their substance and economic and legal reality and not merely their form.

Accrual principle

Under the accrual principle revenue and expense are recognised in the accounting period to which they actually relate, and in that period alone.

Offsetting

Assets and liabilities are recognised separately. Assets and liabilities or revenue and expense may not be offset against one another, subject to any specific exception stipulated in a standard.

Verifiability

Verifiability is the quality that enables users to ensure the accuracy of financial information. Information is verifiable if it is supported by valid internal or external documentary evidence.

Certain qualitative characteristics may overlap or even be contradictory. Hence, it may prove difficult, in the case of the notes, to reconcile the relevance and the completeness of the information provided. In fact, these two characteristics apply to different levels of information: completeness applies to recording transactions in the accounts whilst materiality is taken into account in preparing the financial statements. The preparers of financial statement will need to exercise their judgment, according to the circumstances, in order to decide whether trade-offs between different characteristics are necessary to achieve the objectives of the financial statements.

The way in which the qualitative characteristics are effectively applied depends on the type of information provided. Thus in the case of verifiability:

- Information communicated which does not require judgment may be verified without risk of error;
- Where the information communicated is of a prospective nature or judgmental, its verifiability will enable users to ensure that it is based on assumptions or judgments that are explicit, well-founded and plausible.
C. CONSTRAINTS

The qualitative characteristics of information are applied taking into account three constraints or limits.

1. Cost-benefit

Accounting information has a cost: the benefits derived from this information should justify the cost.

All benefits are considered (including, for example, those related to the monitoring of operations or their compliance) and not only the intrinsic value of the accounting information. Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.

2. Materiality

Materiality must be considered for the presentation and classification of information in the balance sheet and surplus/deficit statement. Materiality must also be considered when determining the information presented in the notes. Information is material if its omission or misstatement could influence the decisions taken by the users of the accounts.

3. Confidentiality of certain operations or transactions

Standards may authorize the non-disclosure of information where the latter would adversely affect the strategic interests of the entity or is protected by specific legal provisions.
A. ELEMENTS

Elements are broad classes of item around which the balance sheet, surplus/deficit statement and, where applicable, the cash flow statement and the statement of changes in net assets/equity are built.

The definition of principles relating to the financial statements of government units implies an examination of the sources of rights and obligations specific to public action.

Originally, these powers and commitments relate to the sovereign power. When determining public policy, the sovereign power attributes some of them to government units in the form of rights and obligations for the units to carry out their missions. From that point on, these rights and obligations specific to the public action might take on characteristics similar to those of business entities. The conceptual framework (and the standards based on it) defines at what stage the powers and commitments of the sovereign power become, wholly or partly, rights and obligations of an identified government unit.

The principles adopted in the conceptual framework also take into account that the sovereign power may decide unilaterally to change substantially the nature or scope of the rights and obligations entrusted in the government unit.

1. Asset

An asset is a present resource controlled as a result of past events.

By using the term “present” the definition indicates that the resource exists (presently), at the accounting date. The term is used to ensure consistency with the definition of a liability, based on the concept of a “present obligation”. In addition, the introduction of this term in the definition of an asset clarifies the distinction between an asset and a contingent asset (see below).

A resource is an element embodying service potential

Service potential is the capacity:

> To provide goods and services, individually or to the community, enabling a government unit to fulfil its missions or
> To obtain economic benefits, which usually consist of cash inflows or the reduction of cash outflows.
Service potential benefits the government unit or a third party, in accordance with its mission or purpose.

The economic benefits flow necessarily to the government unit. Where the economic benefit flows also to a third party it belongs to the latter and is separate.

The government unit **controls the resource** if it has the ability to use the service potential, for its own benefit or for that of third parties.

This ability includes the possibility of:
- determining the nature and manner of use of the resource, in accordance with the government unit’s mission, in particular that of prohibiting, restricting or constraining the use of the resource for its own benefit or that of a third party;
- using the resource to settle an obligation;
- to exchange it for another resource.

The issue is to determine whether the government unit has this ability, irrespective of whether or not it actually exercises it. Therefore, the fact that the entity chooses not to exercise its ability (which it could do at any time) does not affect the existence of control.

Determining the manner of use may imply defining the way other entities use the service potential embodied in the resource.

There are non-cumulative indicators used to determine whether a government unit controls a resource, such as legal title or the fact that the government unit has access to the risks and rewards associated with the use of the resource. However, the use of legal title as an indicator of control requires caution, as control may be exercised without having ownership of the resource and the other way round. Ownership does not systematically give rise to control.

Where appropriate, these indicators are set out in the standards on a non-exhaustive basis.

To meet the definition of an asset and determine when a government unit acquires control of a resource, it is necessary to identify a transaction or a past event.

The issue of control, retained by the sovereign power or transferred to the government unit illustrates the distinction between the powers of the sovereign power and the rights of public units, for example:
- The power to raise taxation or public property in general are specific features of the public sector that are prerogatives of the sovereign power;
- Taxation receivable or interests in the profits derived from operating public property are in theory resources controlled by government units and as such form part of their assets.
The power to raise taxation is a prerogative of the sovereign power, which can be transferred to government units in the form of a right to raise taxation. This right is not perpetual; it exists when it is effective in law and is enforceable.

Public property is a common resource with a potential profitability. The sovereign power may grant rights over these profits. Government units may be the beneficiaries of such rights.

Tangible assets in the public domain are in general government unit assets.

The identification of the timing of the acquisition of control by a government unit is based on an event providing evidence of the availability of service potential, where applicable in the form of economic benefits.

2. Liability
   a. Definition

   A liability is a present obligation of the government unit arising from a past event which it can only settle by an outflow of resources.

   The identification of a liability does not require an examination of all the obligations of a government unit, only those that combine all the criteria of the definition, i.e.
   - To be an obligation of a government unit;
   - To be present, i.e. exist at the accounting date;
   - Arise from a past event;
   - That can only be settled by an outflow of resources.

   The fact that an obligation is enforceable at any time in a court of law is an indicator of its present existence.

   b. Determining whether the criteria defining a liability are met

   According to the nature of the present obligation, the criteria defining a liability may be considered by reference to business accounting. Two situations may arise:

   The obligation is similar or equivalent to an obligation of a business entity because it is:
   - A contractual or similar obligation, or
   - The result of provisions which cannot be unilaterally modified by the sovereign power because of the limits fixed by general legal principles, constitutional guarantees or ratified international commitments.\textsuperscript{18}

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\textsuperscript{18} See Chapter 3 above on the specific characteristics of public action and their accounting consequences.
In this case, the existence of the obligation and the unavoidable outflow of resources is assessed in the same way as for a business entity. There is no specific characteristic that could justify a special accounting treatment.

Consequently, an obligation similar or equivalent to an obligation of a business entity is a liability of a government unit provided it meets the other criteria for the definition of a liability. If not, it is a contingent liability.

The obligation is specific to public action because it arises under legal or regulatory provisions applicable to a specific public action or unilateral administrative decisions giving rise to rights exercised in application of legal provisions.

In this case, business accounting does not provide a reference for the appropriate accounting treatment. This conceptual framework proposes, in these circumstances, to examine the maturity of the obligation in order to determine if, at a point in time, the power of the sovereign power, which is the source of the obligation, no longer has the ability to modify it: it is then similar or equivalent to an obligation of a business entity and receives the same accounting treatment. At this point in time, the obligation specific to public action effectively becomes an obligation of the government unit and the definition criteria for a liability apply (i.e. the existence of a past event and the unavoidable nature of the outflow of resources to settle the obligation).

The conceptual framework’s approach to determining when the commitment of the sovereign power attributed as an obligation specific to public action effectively becomes an obligation of the government unit is based on the notion of enforceability.

The obligation becomes enforceable, when it loses the original characteristics specific to public action and becomes similar or equivalent to an obligation of a business entity and may be treated as such without adversely affecting the internal consistency of the financial statements of the government unit.

An obligation specific to public action becomes a liability when it is enforceable on the government unit responsible for the action.

An obligation specific to public action becomes enforceable on the government unit when the following combined conditions are met:
- the obligation relates to a defined benefit;
- the recipient is clearly identified and declared;
- its settlement date is known;
- all the conditions relating to the entitlement to benefits from the government unit have been met.\(^{19}\)

\(^{19}\)The existence of a recognising event is dealt with in the section on recognition.
Until an obligation specific to public action becomes enforceable, it remains a sovereign power commitment\(^ {20} \), which may require disclosure in the notes.

Thus, the permanent commitment to provide free or virtually free social benefits, in kind or in cash, which is a characteristic of the mission of public service, is a sovereign power commitment that may in some cases require disclosure in the notes or give rise to a sustainability report.

c. Lack of constructive obligations specific to government units

Government units are set up to exercise responsibilities defined by a clear legal or regulatory framework, and the specific mechanisms of public action cannot by definition give rise to constructive obligations.

Government units do not therefore have liabilities or contingent liabilities arising from constructive obligations (\(^ * \)) specific to public action.

Business entities may recognise a liability under a constructive obligation where there is a risk that non-compliance with the latter may affect the survival of the entity.

This risk does not apply to the sovereign power or the government units the latter has created directly or indirectly. The survival of a government unit is independent of its rights and obligations.

Whilst the conceptual framework does not recognise the existence of constructive obligations specific to public action it does not exclude the possibility that obligations similar or equivalent to those of business entities might be of a constructive nature.

3. Other resources and other obligations

In certain exceptional circumstances, in order to meet the objectives of financial statements, standards may require resources and obligations to be recognised even if they do not meet the definition of assets and liabilities under the terms of this conceptual framework.

In this case, these “other resources” and “other obligations” should be presented separately from assets, liabilities and equity.

These other resources and other obligations may be described as deferred elements.

\(^ {20} \) Which would then become a specific class of element (see the proposals for the notes in Chapter 8).
4. **Net assets or equity**

Net assets are the arithmetical difference between assets and liabilities after adjustment for any “other resources” and “other obligations.”

Because of the sovereign powers underlying the policy implemented by the government unit, the amount of net assets is not in itself an indicator of the capacity of the entity to honour its obligations. Negative net assets are not necessarily the sign of bad management. If the amount of net assets is difficult to interpret, the trend over several accounting periods may provide useful information to users.

In the case of entities founded with an initial capital allocation or share capital, net assets are equivalent to equity.

Equity is the sum of:

- The initial capital allocation or share capital;
- Accumulated surplus and deficits;
- Changes in capital allocations made by the founding entity or a third party from outside the government unit;
- Where applicable, withdrawals made for non-founding entities

5. **Revenue, expense, surplus and deficit**

a. **Revenue**

Revenue is an increase in net assets for the period, other than those relating to capital contributions.

Government units, and principally Central Government, have specific sources of sovereign power revenue arising from compulsory levies (*) or the allocation of amounts arising under these levies.

b. **Expense**

An expense is a reduction in net assets for the period, other than a reduction relating to capital.

Government units have specific expense related to sovereignty, called intervention expense, linked to the role of economic and social regulation.
c. Surplus/deficit

Revenue and expense are recognised and presented in the surplus/deficit statement. The difference between revenue and expense is the surplus or deficit for the period.

The surplus/deficit is more or less meaningful according to the government unit. It may have little relevance where revenue and expense for a period are unrelated, but where the management rules fixed by the sovereign power, or the entity to which it has attributed its regulatory powers, require revenue and expense to balance out; it becomes a meaningful measure of performance. This applies for example to the social sphere. The surplus/deficit indicates whether revenue and expense for the period are in line with one another.

The surplus/deficit is therefore a relevant indicator for schemes funded on a pay as you go basis.

Accounting standards and the related rules may provide an explanation of the meaning (or lack of meaning) and significance of the surplus/deficit.

B. RECOGNITION

1. Definition of recognition criteria

An element is recognised when it meets the two following combined criteria:

> Its recognising event has occurred;

> It can be reliably measured.

The conceptual framework distinguishes recognition criteria from those included in the definition of the elements. Recognition is the second logical step in accounting. As it takes place after identification of an element, it enables any related uncertainties to be considered:

- Either because it cannot be reliably measured;

- Or even because there is uncertainty about fully satisfying the definition criteria (for example about controlling the resource for an asset or the probability of an outflow of resources for a liability).

In these circumstances, it may be a contingent element, which will be recognised in a later period when the recognition criteria are met.

If an element does not satisfy all the recognition criteria it is not recognised. On the other hand, it may be disclosed in the notes.

21 In accordance with the recognition criteria set out in Part B below.
The recognising event for the accrual accounts may be different to that of the budget accounts.

The recognising event for each element is defined in the relevant standards, as this issue is of particular importance in the public sector because of the number of specific transactions, such as non-exchange transactions. It is therefore important to define when they are recognised. The recognising event also provides a means of distinguishing a liability from a disclosure to be made in the notes.

Reliability of measurement is a recognition criterion applicable to all elements.

The recognising event criterion varies according to the type of element.

**Recognition of an asset**

An asset is recognised when the government unit obtains control.

**Recognition of a liability**

A liability specific to public action is recognised when it is enforceable by the creditor on the government unit.

A non-specific liability is recognised when it is a present obligation which can only be settled by an outflow of resources.

**Recognition of revenue**

Revenue is recognised in the surplus/deficit statement when it is earned by the government unit.

**Recognition of an expense**

The recognising event for an expense is the performance of the service.

In the case of intervention expense, the service is considered to be performed when the beneficiary has fulfilled, or continues to fulfil during the current accounting period, all the conditions necessary to establish entitlement to the benefits.

2. **Derecognition**

An element is derecognised when it no longer meets the combined recognition criteria.

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22 This notion is defined in the standards, where applicable, by type of expense.
C. CONTINGENT ASSETS AND LIABILITIES OF GOVERNMENT UNITS

[159] Certain of the rights and obligations of government units do not meet all the definition criteria for an element. Others are elements but do not meet all the recognition criteria. They may be contingent assets or liabilities of the government unit, in which case they may be disclosed in the notes.

[160] Contingent assets are potential resources.

[161] Contingent liabilities include:

> either potential obligations towards third parties that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity;

> or an obligation of the government unit towards a third party where it is not probable or certain that the obligation will give rise to an outflow of resources.

[162] The term “off-balance sheet commitments” is sometimes used to describe “contingent liabilities” and “off-balance sheet commitments received” to describe “contingent assets.”
The measurement bases determine the amount at which elements are stated on initial recognition and at each subsequent reporting date.

They must be consistent with the objectives of financial statements of government units and comply with the qualitative characteristics and constraints of accounting information.

A. MEASUREMENT OF AN ASSET

1. The measurement of an asset on initial recognition: determination of the entry value of an asset

The entry value of an asset is its cost.

The cost is the amount of cash and non-cash consideration given to control an asset. It includes all the costs attributable to the asset, corresponding to the costs incurred during the period of acquisition.

Cost may take the following forms:

- acquisition cost if the asset is acquired for valuable consideration;
- production cost if the asset is produced by the government unit;
- net carrying amount in the case of transfers made free of charge between government units;
- market value in the case of other acquisitions made free of charge.

In particular well-defined circumstances, where the proposed measurement basis would not satisfy the qualitative characteristics required of accounting information, the standard may provide for measurement of the asset on initial recognition at a token or fixed amount, at an amount estimated by a valuer, at depreciated replacement cost or at another value.

2. Measurement at the reporting date

At the reporting date an asset is generally measured at its entry value after deducting, as appropriate, accumulated depreciation and impairment.
A standard may provide for other measurement bases at the reporting date, including:

- **Market value**: The amount which could be obtained, at the reporting date, for the sale of an asset in a transaction carried out at normal market conditions, less costs to sell.

- **Depreciated replacement cost**: Value based on an estimation of the cost of replacing the asset by a similar asset with an identical service potential.

- **Token or fixed amount** in clearly identified circumstances.

### B. MEASUREMENT OF A LIABILITY

On initial recognition and at subsequent reporting dates, a liability is generally measured at its “settlement amount”, discounted or not as applicable. Settlement amount is an estimation of resource outflows required to settle the obligation. This applies in particular to debts intended to be held to maturity.

The requirements of the relevant standard determine the measurement basis for the specific obligations of public action.

In particular well-defined circumstances, the standard may provide for other measurement bases, including market value.

### C. MEASUREMENT OF REVENUE AND EXPENSE

An expense is measured as the increase in a liability or the decrease of an asset to which it relates. Revenue is measured as the increase in an asset or the decrease of a liability to which it relates.

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23 Sometimes referred to as net selling price.

24 Costs to sell are the incremental disposal costs directly attributed to the disposal of an asset, with the exception of interest and income tax expense.
The conceptual framework is concerned with the separate financial statements of government units and the possible combinations of these accounts.

A. NOTION OF REPORTING ENTITY

An reporting entity is an entity or clearly defined activity, which prepares accrual accounts either by choice or as a legal or regulatory obligation.

An reporting entity may or may not be a separate legal entity.

Where a reporting entity is not a separate legal entity, its financial statements are included in those of the legal entity of which it forms a part.

Unlike the sovereign power, government units within the scope of this conceptual framework are reporting entities.

B. COMPONENTS OF FINANCIAL STATEMENTS

Financial statements prepared on an accruals basis are presented at least once a year. They make up an indissociable set comprising:

- A statement of financial position or balance sheet;
- A surplus/deficit statement;
- Notes.

The financial statements may also include:

> A cash flow statement;

> A statement of changes in net assets/equity.

The financial statements are presented in accordance with the structure determined in the standards.

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25 This situation is dealt with in Chapter 9 “Consolidation and combination of reporting entities”.
C. PRESENTATION OF FINANCIAL STATEMENTS

The statement of financial position or balance sheet may be presented in table or list format.

If the balance sheet is presented in table format, equity and liabilities must be presented separately.

The surplus/deficit statement is presented, in table or list format, by nature or by function. Information in the notes may be presented according to the option (by nature or by function) not adopted in the surplus/deficit statement.

The notes, which form an integral part of the financial statements, provide supplementary information and commentary on the elements recognised and where necessary on contingent elements, if the latter are material. Thus the notes provide information useful for the comprehension and interpretation of the financial statements:

> By providing supplementary information and commentary on certain transactions in the accounts;

> By providing information on contingent elements which are not disclosed in the other components of the financial statements (because they do not meet the definition of an element or the recognition criteria), which is required by the user of public accounts;

> By providing information on certain powers or commitments of the sovereign power which are neither elements nor contingent elements of the government unit but which relate to the latter’s mission. This is because the process by which a power or commitment of the sovereign power translates into assets or liabilities covers several phases. However, even before these powers or commitments become assets or liabilities of the government unit, knowledge of them is important for the comprehension of public accounts. For this reason, this conceptual framework requires information on certain powers or commitments of the sovereign power to be provided in the notes of the government units responsible for implementing the related public policies, before they become rights and obligations even of a contingent nature for these entities. All the powers or commitments of the sovereign power cannot, however, be disclosed as this would make the notes incomprehensible and thus contrary to the objective of providing relevant information to users of accounts. The requirements relating to the notes define their boundaries, in particular with respect to existing information of a mandatory nature contained in other documents.

The relevant standards determine when the disclosure of this type of information in the notes is useful, in particular in order to inform the user of the effective impact of information provided in the financial statements.
The disclosure of certain permanent powers or commitments of the sovereign power, even if they cannot be attributed to the reporting entities, is of real interest for an understanding of public finance. The disclosure of such information is recommended, because even if the laws and regulations that give rise to obligations for government units may change at any time, it does not mean they actually will change in such a way as to affect financial position. The government units responsible for implementing public policies are often in the best position to provide this information. These considerations lead to adopting the principle of fuller disclosure in the notes than would be normally expected for a business entity under private sector standards.

For this purpose, the standards define the following requirements in respect of the notes:

- The contents of that part of the notes that is specific to government units in relation to the relevant general legal requirements;
- Guidance for the preparation of the second part of the notes with the purpose of providing information on certain rights and obligations specific to public action which are not enforceable on the government unit although the latter has partial responsibility for them. In this second part, the entity is supposed to make appropriate disclosures about measures it manages, without either totally controlling them or being in a position to assume all of their consequences.

The standards define the boundaries between the contents of the notes and other reports outside the scope of accounting standards (management report, financial sustainability report, long range forecasts required by the law, etc.).

The standard may, where appropriate, define simplified presentation requirements for government units with low materiality.

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26 But it is not appropriate to disclose all the perpetual commitments of the sovereign in the notes, such as when they are invariable from one period to another.
Each reporting entity in the general government sector prepares and publishes accounts according to the relevant standards applicable to it.

Under the legislation applicable to government units, accounts combining several reporting entities may be prepared and published in the following cases:

> Where a government unit, which is an reporting entity, controls another reporting entity, consolidated accounts may be presented.

A government unit may exercise control over an entity in different ways, for example by the power to govern the financial and operating policies of the entity for the purposes of implementing public policy. The controlling entity's rights usually have a legal basis. They usually take the form of the power to obtain the majority of voting rights in the management board of the controlled entity.

The standards provide a definition of control, and of the controlling entity and set out the conditions, scope and procedures for consolidation.

> Where, as a result of an agreement or compulsory regulations, two or more entities have the same management board, common departments, missions or activities, on an extensive and lasting basis, and this organisational model reflects a common interest and a common technical and financial approach, combined accounts may be presented.

The standards define the conditions, scope and combination procedures.

Consolidation and combination both give rise to an reporting entity, which is the result of the consolidation or combination. However, the aggregated accounts of entities with common characteristics, but without common control or interests, are not those of a new reporting entity.
Non market activity

According to the National Institute of Statistics and Economic Studies (INSEE), “A unit is considered to render non market services when it provides them free of charge or at prices which are not economically significant. These service activities are found in education, health, social work and administration.”

A price is considered to be “not economically significant” when it has no-or little-influence on the quantities the producer is prepared to supply and only an marginal effect is expected on demand.

Government unit

This notion was originally introduced by the national accounts.

EU Regulation N° 549/2013 of the European Parliament and of the Council of 21 May 2013 relating to the European system of national and regional accounts in the European Union gives the following definition (paragraph 20.06): “Government units are legal entities established by political process which have legislative, judicial or executive authority over other institutional units within a given area. Their principal function is to provide goods and services to the community and to households on a non-market basis and to redistribute income and wealth.”

This EU Regulation defines the general government sector as follows: “The general government sector (S.13) consists of all government units and all non-market non-profit institutions (NPIs) that are controlled by government units. It also comprises other non-market producers (…)”

Capital provider

A capital provider makes funding available to an entity in the form of a repayable loan or a capital gift or contribution which entitles the capital provider to an interest in the share capital of the entity.

Public goods

In economics, public goods are goods and services of which the use is “non-rivalrous” and “non-excludable”, meaning that the consumption of the goods by one individual does not reduce their availability for consumption by others (non-rivalrous) and individuals cannot be effectively excluded from consuming the goods (non-excludable).

As the consumption of a public good cannot be individualised, there is no market price or market; the role of Central Government is to provide certain non-natural goods.
The public goods concerned by this conceptual framework are either public goods by nature or goods and services to which this characteristic has been attributed (for example National Education).

**Budget**

The budget is an Act that provides for and authorises income and expenditure. Where appropriate, it provides for and authorises jobs and expenditure commitments.

**Budget accounts**

The budget accounts provides a record of actual expenditure compared to budget authorisations, and of authorised revenue, presented in the form required by the budget (commitment authority, cash-based appropriation, revenue received, etc.).

They provide a record of the use of budget appropriations, and where applicable, of staff available to the authorising officer, in accordance with the specific budget allocation.

The budget accounts have a structure facilitating a comparison between authorisation and implementation.

**Accrual accounting**

The accrual accounts present all the transactions affecting financial position and performance.

They are based on the accrual principle.

**National accounts**

National accounts provide an accounting framework for the presentation of data relating to an economy and the economic agents that compose it.

The rules applicable to national accounts are set out in EU Regulation N° 549/2013 of the European Parliament and of the Council of 21 May 2013 relating to the European system of national and regional accounts in the European Union (ESA 2010). This regulation is an adaptation for the European Union of similar requirements established under the auspices of the United Nations Organisation.

**Commitments**

In this conceptual framework, the term “commitment” applies to the sovereign power. From a legal standpoint, there is no difference between a commitment and an obligation. For the sake of clarity, this conceptual framework only uses the term commitment in respect of the sovereign power and the term obligation for government units.

Note:

> The conceptual framework notes that the term “off-balance sheet commitments” is sometimes used to describe “contingent liabilities” and “off-balance sheet commitments received” to describe “contingent assets”.
Financial year

The financial year is the period covered by the financial statements. Except in the case of a start-up or a closure this is a 12 month period. It normally coincides with the calendar year.

Fidéicommis

According to Professor Jean Gaudemet, a “fidéicommis” is a term originally used to describe a last will and testament made to an executor purely on trust (“fidei committere”). It was a simple request made to another party that could not be legally enforced (...). Source: Universal Encyclopaedia.

Constructive obligation

A constructive obligation – a concept not applicable to specific obligations of public action – is an obligation which is not the result of legal provisions, regulations or a contractual arrangement, and derives from the past practice of the entity, its published policy or a sufficiently specific public commitment to act in a certain manner which have created a valid expectation on the part of other parties that it will accept certain responsibilities.

Transaction

The notion of transaction refers to the activity of each economic agent. In the ESA 2010 a transaction is defined as:

« 1.66 A transaction is an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is useful to treat as a transaction, because the unit is operating in two different capacities. Transactions are split into four main groups:

a) transactions in products: which describe the origin (domestic output or imports) and use (intermediate consumption, final consumption, capital formation — covering consumption of fixed capital — or exports) of products;

b) distributive transactions: which describe how value added generated by production is distributed to labour, capital and government, and the redistribution of income and wealth (taxes on income and wealth and other transfers);

c) financial transactions: which describe the net acquisition of financial assets or the net incurrence of liabilities for each type of financial instrument. Such transactions occur both as counterparts of non-financial transactions, and as transactions involving only financial instruments;

d) transactions not included in the three groups above: acquisitions less disposals of non-produced non-financial assets.
**Not economically significant**

See: Non-market activity.

**Compulsory levies**

Compulsory levies are all taxes and social contributions raised by government units and European institutions.

The payments made by contributors (natural persons and legal entities) are involuntary, in that the latter chose neither the amount nor the conditions for making these payments. The notion of compulsory levies is not a legal definition. It is based on the national accounts which by convention exclude certain transactions.

The payments are involuntary with respect to their amount, and conditions of payment as well as to the lack of short term consideration received in exchange.

Public finance classifies the different types of compulsory levy (general taxation, social contributions and certain taxes related to the provision of public services) according to the consideration provided:

- **General taxation ("impôts"):** levied on all taxpayers, for which the consideration provided is Central and local government spending;

- **Social contributions:** levied on behalf of social security organisations, for which the consideration provided is in the form of social benefits. Some contributions provide entitlement to benefits;

- **Certain taxes ("taxes") related to the provision of public service:** levied on private individuals and business entities for the provision of goods and services, the value of which is not directly related to the amount of the tax paid (for example: local infrastructure tax).

The name of the tax does not give an indication of the class to which it belongs. For example, value added tax (TVA) is an “impôt” in the class of general taxation.

**Pay as you go basis**

The pay as you go basis refers to schemes in which contributions paid in during the current period are used to fund benefits due to be paid out in the current period.

**Public funds**

Public funds or the funding of government units, referred to in the Constitution are used for the implementation of public policies. They include:

- Compulsory levies (see above),

- Other public funds.
These **other public funds** consist mainly of:

- Revenue from government assets (property, investments, other assets, intangible property rights, asset disposals);
- grants, in cash or in kind, made by other public entities;
- industrial and commercial revenue;
- remuneration for services rendered;
- royalties;
- support funds;
- gifts and bequests;
- loans.

**Transfer**

**Social transfers in kind (source: INSEE)**

“Social transfers in kind correspond to individual goods and services supplied to households, whether the said goods and services were purchased on the market by government units or by NPISH, or whether they were produced by them (non-market production).

They therefore include both:

- social benefits in kind which fall into the category of social protection, i.e. goods and services supplied directly by government units (housing benefit for example) and those that beneficiary households buy themselves and then have reimbursed (medication, healthcare);
- and transfers of individual non-market goods and services produced by government units or by NPISH, particularly education and health.”

**Transfers according to the Constitutional bylaw on budget acts (LOLF)**

Transfers in respect of intervention expenditure form part of the budgeted expenditure of Central Government and include transfers to households, to businesses, to local and regional authorities, to other authorities and losses relating to the exercise of guarantees.